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SUBMISSION TO THE ONTARIO COMMITTEE ON TAXATION

THE CASE AGAINST THE CORPORATION INCOME TAX

INTRODUCTION

Throughout history the human race has shown a remarkable facility for producing the right man or the right idea to meet each crisis as it develops. The idea of the corporate form of enterprise was just such a fortuitous event, coming as it did at a time when technological and fiscal progress was making possible a new type of economic growth incapable of being handled or financed by the single craftsman or entrepreneur acting alone. As machines were developed, and as man learned to apply power to these machines, it became necessary to employ very large pools of capital and labour in single enterprises if the full productivity and efficiency potentials were to be attained. Thus, the concept of the corporation, a mechanism whereby men could pool the capital and the physical efforts of many individuals into single group enterprises, made possible the staggering advances in prosperity that the free enterprise world has experienced in the past few centuries.

The corporate form, which has given us the highest living standards in history, is nothing but a mechanism, a legal device to enable people to combine into groups for business activities so as to act as a single entity rather than as separate individuals. This power to enter into group contracts, to appoint a single agent to act for the group, to sue and be sued collectively, to act jointly rather than separately cannot change the immutable fact that only people can own property, pay taxes, or earn income. Legalistically, that is for the technical purposes of the law of property, we can clothe this corporate device with many of the attributes of people but as soon as we become concerned with the economic, rather than the legalistic, effects of corporate enterprise we must measure these in terms of people. In trying to achieve higher living standards, our concern is to make our people prosperous--our people, not our companies. If our companies prosper, then our people

will prosper, if the corporate form of enterprise is used properly for the benefit of the people. But our objective is always prosperity for our people, because the company, as such, is only a mechanism, a thing.

The activities of companies are so pervasive in our daily lives that we have fallen into the trap of thinking of them as corporate beings, or artificial persons, capable of owning property, of earning income or of paying taxes. Legalistically this is what happens, but in the economic sense only flesh and blood people can have these attributes. Our corporations can publish glossy annual reports telling the public how much profit they have made, but always that profit is the property of the shareholders because the corporation is nothing but a funnel through which flow the collective transactions involving the shareholders' property and income. But at this point of time our people on the whole have come to take it for granted that corporations can in fact own property and earn income in the economic sense, and thus our people have come to look on the corporation as a being with human attributes.

It is this grand national, or even international, fallacy that led us to the corporation income tax. The tax was introduced as a wartime emergency measure, because it was obviously a convenient means for government to obtain large sums of revenue. In national emergencies many abuses can be tolerated, because emotional forces will cause people to accept or live with situations which would be intolerable under normal circumstances. At the time the tax was introduced, corporate incomes were simply the income of shareholders earned through the employment of their capital, and these earnings were very largely distributed each year as dividends. Thus, the concept of taxing them was nothing more than taking an extra tax bite out of the income of wealthy people, it being recognized that this disincentive to capital investment would not damage economic growth during wartime.

Once introduced, however, this new tax was quickly accepted as a particularly convenient tax from the political viewpoint. Objections from corporations had much less effect than did the voice of the electorate, and voters who had long since come to look upon corporations as persons could easily become convinced that these corporate persons should bear income tax just as should flesh and blood persons. When one is trying to unload one's burdens on someone else, it is easy to believe what one wants to believe. The fact that a corporation, being a thing, cannot bear a tax was shouted down by the masses who could point to audited statements to show that the corporations had in fact paid the tax which would otherwise have been paid by them, the masses. But then such has always been the power of self deception.

The fact remains that the corporation cannot suffer a tax, except in the legalistic sense. But in this sense the corporation acts only for a group of people. Insofar as its capital and its earnings are concerned, it acts for its shareholders collectively, but insofar as its tax bill is concerned, this may in fact be passed on to quite different groups of people. The paying of a tax or the avoiding of a tax involves economic incentives, and these incentives in turn affect the economic success or living standards of the nation.

Thus, our concern is to find out what effects the corporation income tax has on our economic welfare, whether this is a good or a bad way to collect government revenues, whether in fact our people are better off with this tax than if alternative fiscal routes were to be followed to meet government needs. The following numbered paragraphs are intended to bring out the factors that must be considered in order to reach conclusions on these questions.

Recognizing that our corporations carry on their affairs both in Canada and in its provinces, they are required to pay corporation income

tax at both levels of government. For corporate policy and planning purposes, as well as for purposes of measuring economic effects, the total tax paid to both levels of government be considered as a single sum. Thus, this brief discusses the corporation income tax in total and, except for brief closing remarks, it makes no attempt to consider the provincial aspects of the tax as distinct from the federal aspects. Inasmuch as the tax effects on our people are identical, regardless of the level of government levying the tax, such a differentiation seems to be unimportant. The one qualification to this general statement is covered in the "Conclusion" to the brief.

1. The corporation income tax is a bad tax because:

   (a) through being largely passed on in the form of higher selling prices, it bears most heavily on consumers of whom a large percentage are in the low income brackets;

   (b) because of the need to define corporate income and and expenses and to allow for innumerable special situations, it is by far our most complex tax law and is very expensive to administer and to comply with, thus adding a heavy non-productive burden to Canadian business costs;

   (c) it provides a huge incentive to arrange business affairs artificially in order to avoid taxation, causing many of our finest professional brains and many of our most capable executives to spend a large part of their very costly time on the sterile task of thinking up ways and means of beating the tax;

   (d) because business expenses cost the company only 50 cents on the dollar, with government paying the

balance, there has been a significant growth in expense account living and all sorts of extravagances by business, all of which adds to costs, is passed on to the consumer, and thus makes our products less competitive;

(e) it provides great incentives towards internal financing of corporate growth, virtually eliminating the issue of new corporate equity securities except for new corporations and special situations--thus bringing about a concentration of wealth and frustrating the effective social operation of the capital system.

2. Can so bad a tax have redeeming features to justify its existence as one of the largest sources of government revenues in most free enterprise democracies? Its chief advantage is, of course, that it is tremendously productive so long as the free enterprise system continues. But its real appeal to our legislators has always been that the tax is levied on things (companies) rather than on voters, and politicians have always been able to convince the mass of the people that constantly increasing social handouts can in fact be accomplished without cost to the people so long as they are financed by taxing our corporations.

3. Only people can pay taxes or own and dispose of property. A company is nothing but a mechanism through which groups of people work together to accomplish more than they could in total if they worked as individuals. And several different groups of people are involved with each company, such as:

(a) shareholders who invest capital and thus own the assets of the business and the income earned from its operations;

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(b) management, who make the operating decisions on behalf of shareholders, and thus indirectly the decisions which, in total, determine the prosperity of the country;

(c) employees, who can be much more productive (and thus earn higher incomes) when working as groups with the capital provided by shareholders than when working by themselves as individual craftsmen;

(d) customers, who by their buying decisions decide the success of the company; and

(e) Canadians as a whole, whose standards of living depend upon the success of Canada's corporations since almost all the nation's productive resources are, under the free enterprise system, entrusted to its corporations for efficient exploitation.

4. So when we glibly talk of taxing corporate profits, we must recognize that, because the corporation is nothing but a mechanism through which various groups of people operate, this tax is in fact paid by one or more of these groups of people. We will consider below in more detail who pays the tax or how it affects the people involved, but we can now sum up the pros and cons of the corporation income tax as follows:

(a) it produces a large amount of revenue which, however, is necessarily paid by people because corporations, being things, cannot suffer a tax;

(b) it is popular politically because it purports to levy a tax on things which have no vote in order to pay large sums to people who do have a vote;

(c) its effects on the nation's productivity, and thus on its living standards, are all bad.

5. Any objective analysis of the tax system designed to ensure that the costs of government are met in ways which do the least damage to the nation's prosperity and living standards will naturally find itself in conflict with the political objectives of hiding taxes from the people. The reasons why the corporation tax is a bad tax, damaging the nation's living standards and employment, are difficult to explain to most people because the explanation involves discussion of complex economic matters which are of little general interest and are in fact beyond the comprehension of a majority of our electorate. For an industrialist to propose the elimination of the corporation tax is to provide the politician with the very obvious retort that business is trying to avoid its responsibilities. This latter argument can be easily understood by almost every voter, even though it is totally wrong. There is thus an understandable tendency for businessmen to avoid so uneven a battle. Nevertheless, the damaging effects of the corporation income tax--not on the corporations, who pass it on, but on the ordinary average Canadian who suffers its effects--are so great as to make it obligatory on those who recognize this fact to press for elimination of this form of tax no matter how difficult such a fight may be.

6. The following paragraphs will discuss in turn each of the advantages and disadvantages of the corporation income tax which have been mentioned above. This discussion of each point is necessarily abbreviated and in very general terms, but it is intended to cover only the broadest principles involved. If these are valid, then the massive, detailed case which can be made will merely support them.

7. The corporation income tax is a great revenue producer. However, since a tax can only be borne by people, it is important to find out who

actually pays the tax if we are to recognize its true effects. There have been many studies by recognized authorities in this field, and the findings are inconclusive in measuring the exact division of the tax burdens amongst the various groups of people who bear it. But all agree that corporations as such, being nothing but mechanisms, cannot bear the tax. In fact, of course, the manner in which a corporation passes on the tax depends upon the nature of its business and also possibly the business cycle. A utility sets its rates to allow itself a fixed return on capital, and therefore its corporation tax is passed on in total to customers. While our experts claim that most corporations, like utilities, pass the tax on to customers, a corporation selling in markets in which the price is determined by foreign producers has little leeway to arrange its selling prices so as to recover all the tax, and must thus pass some or all of the tax on to shareholders in the form of lower dividends. A Company which must keep wages down to stay in business at competitive prices in fact passes on to employees a share of the corporation tax load. And finally, to the extent that the corporation income tax makes Canadian manufacture of some products so unattractive as to prevent investment of capital here then all Canadians suffer the tax in the form of lower employment, lower productivity and lower living standards. Probably the only group which does not suffer the tax--and may even benefit from it--is management, so it may seem strange for an executive to be urging its elimination!

8. The fact that studies to date have not proven conclusively the porportions in which the tax is passed on to the various groups of people involved is of no particular importance for purposes of evaluation of the tax. It does not matter who pays exactly how much. The important point is only that the tax is passed on in full, that the corporations do not pay it, that they cannot bear it because they are things. Therefore, it does not seem valuable to make still one more study on who pays the corporation income tax when the effects will be found to be about the same regardless of the proportions in

which the tax is passed on.

9. There is general agreement amongst the experts, probably expressed most clearly by Dr. A. K. Eaton at the 1962 Conference of the Canadian Tax Foundation, that the corporation tax is passed on chiefly to customers, in the form of higher selling prices, and that its main effect is the same as an extension of the sales tax. This conclusion makes it a highly regressive tax, increasing the cost of Canadian products and thus reducing their competitiveness, and for this reason hurting the living standards of our people. But if this conclusion is valid, then it necessarily means that investors are in fact receiving their corporate profits free of any kind of tax to the extent that corporate earnings are ploughed back into the business and converted into capital gains. If the corporation tax is passed on in selling prices, its removal would mean lower selling prices, leaving corporate profits the same. Therefore, clearly, if our experts are right the Canadian consumer bears most of this tax and the owners of the companies' assets and profits are in fact taking income which has not been taxed and converting it into capital which is not taxable.

10. In spite of the preceding paragraph, there is no doubt that the tax is passed on in part to shareholders in the form of lower dividends. However, because the tax is calculated as a percentage of corporation profits, there is a popular misconception that it is in fact entirely a tax on the shareholders' income. If the tax were to be suddenly eliminated, corporate net income would double because resulting adjustments in prices, wages and costs would inevitably take some years to evolve. However, assuming that removal of the corporation income tax would be accompanied by a provision to ensure the total distribution of earnings (and also of course the elimination of the 20% dividend tax credit) the shareholder would pay the full normal personal tax on his income earned through the corporate route.

11. To the extent that the corporation tax is suffered by shareholders it is an inequitable tax because dividends from corporation profits are also

subjected to the full personal income tax after the income available for dividends has already been cut in half by the corporation income tax. Both equity and hard common sense require that income earned on the investment of capital should be taxed as income, and once only at the same rate as other income is taxed. To penalize the earning of income through the investment of capital is to place a disincentive on investment and thus on growth. Once again, of course, such a penalizing tax is politically popular because it places an inequitable burden on the few (corporate shareholders) in order to benefit the mass of the people. By designing a tax law which is manifestly inequitable, our legislators are guilty of applying the "legal plunder" described by Frederic Bastiat in his book "The Law", when he says:

> "Sometimes the law defends plunder and participates in it. Sometimes the law places the whole apparatus of judges, police, prisons.....at the service of the plunderers, and treats the victim--when he defends himself--as a criminal. In short, there is legal plunder.....
>
> But how is this legal plunder to be identified? Quite simply. See if the law takes from some persons what belongs to them, and gives it to other persons to whom it does not belong. See if the law benefits one citizen at the expense of another by doing what the citizen himself cannot do without committing a crime."

Inequitable tax laws are in fact legal plunder, because they extract unfair amounts from some citizens in order to lighten the burden of others. By such means politicians will buy votes, but the economic end results of such inequity may well hurt the mass of the people much more than would the slight increase in their tax load that would result from equitable legislation.

12. The corporation income tax is our most expensive tax to administer and to comply with. This is because corporate income is infinitely more difficult to define than is personal income, thus calling for the most complex legislative provisions. And then, as it becomes politically or economically desirable to use this tax law to give incentives for special purposes, such as resources development, pension plans, new plant construction, and countless others it becomes necessary to introduce complex special provisions to modify taxable income. As a result, the drafting and enforcing of the corporation tax legislation demands the full time of a staggering number of our most capable legal, financial and economic trained civil servants. On top of this, all corporations must have highly trained tax departments or must have constant access to skilled professional help in the legal and financial areas. Obviously the number of people so employed in industry is many times that employed by government. Because the extreme complexity of the law demands that this work be done only by the most skilled specialists, the cost to the nation is fantastic.

13. Yet all of this cost, which must be borne by our products, is waste! If income earned through the corporate mechanism were to be allowed to flow through to shareholders and taxed as dividends it would not be necessary to add to the present staff working on the personal income tax, except possibly for a machine or two in the collections mechanism. We could easily obtain all the needed revenue through existing alternative taxes, and it would be paid by the people as it now is. We would not be shifting a burden from corporations to people, because corporations, being things, cannot bear this burden--they are already passing it on. By recognizing this fact, by levying our taxes directly on the people, and by eliminating the corporation income tax, we would save the nation a vast annual cost, reducing the prices of our products, improving their competitiveness and raising our living standards.

14. Obviously, elimination of the tax would have to be accompanied by heavy penalties on undistributed earnings, otherwise all corporate profits would be converted into capital gains. It has been argued that a tax on undistributed income would demand the full complexity of the corporation tax law, and thus would preclude the realization of savings set forth in paragraph 13. This is not so. The accounting profession, through its official organization, The Canadian Institute of Chartered Accountants, is fully capable of defining corporate income, and its members, acting as professional auditors, could be required to certify to the accuracy of reported corporate earnings, which would then be the basis for any tax on undistributed earnings. All of this work is being done now, and to place such a responsibility on auditors is not unreasonable. This procedure would eliminate virtually all the complexity of the corporate tax law and the massive cost of its enforcement and compliance.

15. A further massive waste of effort by our most highly skilled lawyers, financial managers and economists is that caused by their constant efforts to arrange business affairs in such a way as to avoid or minimize the corporation tax. Because the logical and efficient way to accomplish a particular purpose would often result in a higher tax bill than if an artificial or circuitous method were followed, a great deal of time of management and professional consultants is devoted to this sterile occupation of devising ways to beat the tax. Once again it must be emphasized that the men and women thus engaged are amongst our most brilliant and thus our most productive, and yet this effort adds nothing but cost to the Canadian economic scene when these same people could be so productive.

16. Before the last war, when the corporation income tax rate was well below 20%, its incentives towards inefficiency were probably marginal. During the pressures of war and national emergency it was not difficult to use emotional means to maintain peak economy, and in fact many of the frills which are now a part of everyday business life were unobtainable in

wartime. But tax rates did not go down appreciably after the war, and with business expenses costing only 50 cents on the dollar there are now real incentives for business to live extravagantly. Wage rate settlements have been excessive but tolerated because government pays half--in fact in the U.S., we have seen government interference on unions' behalf in labour negotiations for this very reason. Lavish offices are now average, company airplanes are multiplying, conventions (with wives paid for by the company), club memberships and scores of other expensive habits are becoming commonplace. What is more, the smaller privately owned business pays most of the personal living costs of the owner, with housemaids and even family members on the payroll, vacation trips as selling expense and so forth, because half the cost can be passed on to other taxpayers. Government, like the corporation, is a thing and therefore all of these extravagances are, in the final analysis, paid for by the consumer through higher selling prices, making Canadian products less competitive and thus reducing employment and living standards.

17. We shall ultimately come to realize that the greatest damage being done by the corporation income tax is caused by the incentives it offers for concentration of wealth. Unfortunately this concept is difficult to define conclusively and impossible to prove at this time. Nevertheless, because of its ultimate importance, this brief would be incomplete without some attempt at discussing the implications.

18. The prosperity of a nation depends essentially upon two factors, namely:

(i) a large national production;

(ii) a wide distribution of this production, or its money equivalent, amongst the households.

In the past, wealth has been produced very largely by work, and it has been distributed equally largely in the form of wages for work done.

So long as full employment was a practical objective, this meant that the total national product would be widely distributed amongst our households. However, full employment no longer seems to be a practical objective as technological gains can raise national output while at the same time reducing employment. Gross national product will increase, but less can be properly distributed as wages for work done.

19. In fact, a rapidly growing proportion of our output is being produced by machine rather than by work, and the net proceeds should therefore be distributed as payment for use of capital rather than as wages for work done. This procedure need cause no problems so long as there is a broad distribution of equity capital ownership, since Canadians could then look to higher total incomes, even though more would come as dividends and less as wages. But such a desirable situation can come about only if we eliminate any incentives towards concentration of capital ownership and in turn offer real incentives towards equity capital ownership by individuals, particularly in middle and lower income brackets. The social and educational problems involved are indeed stupendous, but the alternative of total socialism surely makes the effort worthwhile.

20. Today well over 90% of all industrial growth by existing companies takes place without the issuance of new equity shares. This is chiefly because of the large depreciation allowances offered under our tax law and also because of the great advantage to shareholders of financing through debt because interest is allowed as an expense for tax purposes whereas dividends are not. Debt is repaid out of depreciation provisions and retained earnings so as to avoid the issuance of new equity securities. At the same time, the combination of our steeply graduated income tax, and elimination of the pre-war tax provisions requiring a company to distribute a substantial portion of earnings in order to avoid "deemed dividend" rulings, results in a strong incentive for shareholders to favour retention of earnings by

their companies. This trend has increased until today about one-half of all corporate earnings are retained, thus providing the balance of the funds needed for expansion.

21. This rapid trend towards the internal financing of virtually all industrial growth without the issue of new equity securities is a natural desire of existing capital owners. Thus, in order to keep intact their equity holdings they take measures to have cash available for personal needs, for succession duties, and so forth. This is normal and is, in fact, of the essence of free enterprise. However, because the corporation tax law gives such great incentives to financing corporate growth through high depreciation provisions, debt and retained earnings, the normal expansion which ought to be financed by new equity capital no longer follows the capitalist route. When this is combined with the current trend towards equity investment by institutional accounts, pension funds and insurance companies there is obviously a decreasing quantity of equity shares available for a growing population. What is more important, this is happening at a time when our national income must be distributed more and more in the form of payments to capital owners and less and less in the form of payments for work done. Thus, unless we can reverse the trend towards concentration of equity capital ownership we will end up with high national productivity combined with an unsatisfactory distribution of incomes amongst our households. In a democracy such a situation can only bring on socialism by election, and this in turn can only damage our living standards.

22. Such a thesis requires very lengthy discussion of a great variety of complex factors if it is to be proven right or wrong. Furthermore, the problems caused by wealth concentration in a productive society are new problems, developing slowly, and are thus difficult to discern or to measure. Nevertheless, the fact that a few years ago we had virtual full employment whereas today, with much higher national productivity, we have 5% unemployment,

is surely an indication of the trend of employment and productivity. For this reason, if for no other, we must take serious note of the incentives towards wealth concentration built into the corporation income tax.

23. Against all of these disadvantages, each one of which is sufficiently serious in itself to call for abolition of the corporation income tax, its only advantages are the fact that government derives a great deal of revenue from this source at the same time convincing the majority of voters that the tax is in fact paid by wealthy corporations rather than by the average voter. Two truths seem incontrovertible:

(i) Were the tax to be eliminated, and at the same time, were earnings to be distributed in full, government revenues would probably be approximately the same with no change in rates of other existing taxes; and

(ii) The corporation income tax is chiefly borne by the lower income voter, since it is largely passed on to the consumer along with the very heavy cost of enforcing, complying with and evading the tax.

Thus, the only advantages of the corporation income tax are illusory whereas each of the major disadvantages are very real.

24. One major question remains--if we eliminate the corporation income tax where do governments get the corresponding revenue? Strangely enough, virtually the same amount would automatically flow in from existing alternative taxes at present rates, provided one or two basic parallel corrections are made. The tax collection picture should look something like this:

(a) a heavy tax would have to be levied on undistributed earnings to prevent the conversion of corporate earnings into tax-free capital gains;

(b) dividend payments would thus represent virtually the whole amount of corporate profits before tax, and would therefore be about four times the present dividend payout;

(c) the dividend tax credit would no longer be needed;

(d) taxes equal to those at present being borne on their income from corporate profit sources would continue to be levied on

(i) corporate and institutional holders of equity securities, and

(ii) non-residents.

(e) therefore, total taxes collected in the form of direct income tax on shareholders in respect of their income from equity capital invested in our corporations would be equal to that at present being collected in the form of the corporation income tax, except to the extent that

(i) elimination of corporation income tax caused prices and corporate profits to drop; and

(ii) this income should in fact attract less tax when subject only to the personal graduated income tax instead of to the inequitable double taxation which exists at present.

In the event of (i), living standards would rise, our products would become more competitive thus displacing imports and increasing exports, and the government should get substantially more revenue than before. In the event of (ii), surely the

single tax on income is the only equitable route, for there can be no justification in equity for subjecting one particular form of income to double taxation.

25. If governments would thus collect the same amount of tax revenue, one might ask "Why go to all the trouble of changing?" or more particularly the politician might comment "Don't disturb the animals!" The purpose of the entire proposal is not to reduce government revenues, because government must take from the people the money needed to pay for the services it renders. However, by eliminating the corporation tax we would save the very great, if hidden, costs which we must pay solely because we have chosen to use this particular taxing device--the costs of the government drafting and enforcement staff, the cost of corporate taxation departments and consultants, the inefficiency or extravagance caused by the temptation to spend fifty cent dollars more readily than hundred cent dollars, the vast sterile costs of management concentration on seeking artificial ways to minimize taxation, and so forth. These items add many hundreds of millions each year to Canadian costs, and without them our prices could be lower, our products more competitive, our living standards and employment higher, our people more prosperous.

26. Elimination of the corporation income tax would involve a number of related actions, most of which have been referred to above but which, for convenience, are noted below in summary form:

(a) elimination of the dividend tax credit;

(b) probable introduction of a withholding tax on dividends, to be treated as a payment on account of income tax payable on filing of return;

(c) introduction of a tax on dividends to corporate or institutional shareholders about equivalent to the tax they now pay through the corporation

income tax in respect of earnings on equity investment, and which, in the case of corporate shareholders, could in turn be credited as the dividends were passed through to ultimate owners;

(d) introduction of withholding tax from dividends payable to foreign shareholders at a rate approximately equal to the amount they now bear in the form of corporation income tax; (such a rate will seem high in terms of those now written into international agreements, but since it would replace the present heavy corporation income tax, it would not seem to be inequitable).

27. Elimination of the corporation income tax in a single year would cause considerable disruption of the price structure and other economic factors. Therefore, the progressive elimination over a period of several years, with parallel compensating changes in the items listed in paragraph 24 would seem advisable.

CONCLUSION

From the above it is possible to draw only one objective conclusion -- that the corporation income tax is harmful for our people, that it bears heaviest on the lower income groups because it is highly regressive by nature, and that equivalent government revenues would be forthcoming through alternative direct tax routes at a much lower cost to the country as a whole. If our objective is to raise the living standards of the mass of our people, then we must eliminate the waste and extravagance caused by the bad incentive effects of this tax as well as the direct costs involved in enforcing, complying with or evading the tax. Recognizing that it cannot be borne by things but must be passed on to people, we should be honest enough to admit to our

electors what are the true economic impacts of the tax and why they should, in their own selfish interests, eliminate a tax which is extravagant and wasteful in favour of adopting those direct taxes which damage their living standards least and which leave with the people that only reminder possible to enable them to curb the natural tendencies of politicians to spend the people's money at the expense of the people.

Presumably, because the federal portion of the total corporation income tax is so much more significant than is the provincial portion, there is little value in eliminating the latter unless the former too can be eliminated. However, the corporation income tax is the largest single source of provincial revenue in Ontario, and it is in fact a significant factor in the location and expansion of industry. Conceivably, any province having the courage to eliminate this wasteful and expensive tax would immediately offer to industry a very important incentive towards concentrating Canadian operations in that province. The economic effects of any significant concentration of industry is so courageous a province would in all probability more than offset the temporary loss of revenue. However, undoubtedly once any government has had the courage to face up to this decision others would follow because they could scarcely afford to let such competition go unmatched.

Because a corporation is nothing but a thing, the attempts to unload tax burdens onto this thing cannot succeed and then burdens must be passed through to people. Only when we face facts squarely and when, realizing that we the people must pay for all the costs of government including the "something for nothing" socialistic handouts, we are prepared to tax ourselves directly to pay for essential costs, shall we adopt a tax system calculated to allow maximum living standards with minimum damage to the incentives to efficiency and productivity.

6th December 1963